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Dept. Of Commerce & Insurance
Company Examinations

Report on Examination

of

U.S. LEGAL SERVICES OF TENNESSEE, INC.

Newbern, Tennessee

as of

September 30, 2003

THE DEPARTMENT OF COMMERCE AND INSURANCE
STATE OF TENNESSEE
Nashville, Tennessee

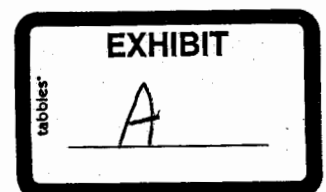


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STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE
INSURANCE DIVISION
500 JAMES ROBERTSON PARKWAY - 4TH FLOOR
NASHVILLE, TENNESSEE 37243-1135

January 16, 2003

The Honorable Paula A. Flowers
Commissioner of Commerce and Insurance
State of Tennessee
500 James Robertson Parkway
Nashville, Tennessee 37243-1135

Dear Commissioner:

Pursuant to your instructions and in accordance with Tennessee insurance laws and regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination and market conduct review has been made of the condition and affairs of

U.S. Legal Services of Tennessee, Inc.
220 West Wind Drive
Newbern, Tennessee 38059

(hereinafter and generally referred to as "the Company") as at September 30, 2003, and the report thereon is hereby respectfully submitted. The Company was examined at its principal office at 8825 Perimeter Park Boulevard, Suite 102, Jacksonville, Florida, 32216, which is the primary location of its books and records. The Department informed the examiner that Tenn. Code Ann. 56-2-104(5), which requires insurers' books and records to be maintained in the State of Tennessee, is not applicable to the Company pursuant to Tenn. Code Ann. 56-43-111(e)(2) which states that "the provisions of the general insurance law do not apply" to legal insurers except as otherwise provided by that chapter.

SCOPE OF EXAMINATION

The previous examination of the Company consisted of the Organizational Examination as performed by a representative of the State of Tennessee Department of Commerce and Insurance, (hereinafter referred to as "the Department"). The report of the Organizational Examination was adopted by a Department Order dated March 3, 2003, and reported the Company's surplus funds to be \$205,000.

This examination, which began October 13, 2003, covers the intervening period from January 30, 2003 through and including September 30, 2003, and was conducted by representatives of the Department. The examination consisted of a review of corporate minutes and records, verification and valuation of assets and a determination of liabilities, reserves and the resulting unassigned (surplus) funds of the Company. The examination of the financial condition of the Company was conducted in accordance with guidelines and procedures contained in the National Association of Insurance Commissioners (NAIC) Examiners Handbook and Accounting Practices and Procedures Manual.

An examination was also made into the following matters:

Company History	Growth of the Company
Management and Control	Loss Experience
Pecuniary Interest and	Reinsurance
Commission Equity	Market Conduct Activities
Corporate Records	Employee Welfare
Statutory Deposits	Accounts and Records
Fidelity Bond and Other Insurance	Litigation and Contingent Liabilities
Territory and Plan of Operation	Financial Statement
Legal Services Agreements	

Such tests and review were conducted as deemed necessary or appropriate for the purposes of this examination. This report is written by exception, except for certain items of regulatory significance, and those matters examined and found to be substantially in compliance with statutes will not be commented on further. Events subsequent to the September 30, 2003, examination date are included where relevant and appropriate.

The Company retains the services of an independent accounting firm to prepare statutory financial statements. The accountants provided the examiners with their working papers for both the June 30 and September 30, 2003 quarterly statements as filed with the Department. These statements were reconciled to the Company's books of account at their respective dates. The Company's first annual statement will be filed with the Department as of December 31, 2003.

The Department informed the examiner that the Company is not required to file with the NAIC pursuant to the Tenn. Code Ann. 56-43-111(e)(2) which states that "the provisions of the general insurance law do not apply" to the Company except as otherwise provided by that chapter.

COMPANY HISTORY

The Company was incorporated on November 5, 2002 under the Tennessee Business Corporation Act as a for-profit legal insurance company. On March 12, 2003 the Company was issued a Certificate of Authority to transact the business of legal insurance pursuant to Tenn. Code Ann. § 56-43. The Company commenced business on April 1, 2003, and issued its first policy in May.

Capital Stock:

In accordance with the Company's charter as amended December 3, 2002, the Company is authorized to issue 1,000 shares of common stock at a par value of \$100.00 per share. On November 5, 2002 the Board of Directors of the Company approved the issuance of all 1,000 shares of its common stock to Marie M. Forbes, an individual, for a total price of \$205,000 in accordance with a Stock Subscription Agreement. At September 30, 2003, as reflects examination changes, the Company had surplus funds as follows:

Common capital stock	\$100,000
Gross paid in and contributed surplus	105,000
Unassigned funds (surplus)	<u>(43,265)</u>
Total	\$161,735

Tenn. Reg. 0780-1-60-.05(1) requires the Company to "maintain capital of at least \$100,000" and "surplus of at least one-third (1/3) of gross premium." As the Company's gross premium at September 30, 2003 is \$112,176, one-third of which is \$37,392, and the Company's surplus funds total \$61,735 (\$105,000 - \$43,265), it appears that the Company is in compliance with the referenced regulation.

MANAGEMENT AND CONTROL

Holding Company System:

The Company is exempted from the definitions and provisions of Tenn. Code Ann. § 56-11, the "insurance holding company system act", by Tenn. Code Ann. § 56-43-111(e)(2) which states that "Except as otherwise provided in this chapter, the provisions of the general insurance law do not apply to insurers authorized under this chapter."

In accordance with NAIC definitions, however, the Company is deemed to be an affiliate of U.S. Legal Services, Inc. (U.S. Legal), a Florida legal insurance company, which is also wholly owned by Marie M. Forbes.

Shareholders:

The Company is wholly owned by Marie M. Forbes, an individual, who is the sole shareholder of all 1,000 outstanding shares of the Company's common stock.

The Bylaws of the Company provide that the "annual meeting of the shareholders . . . for the election of officers and for such other business as may properly come before the meeting shall be held at such time and place as designated by the Board of Directors." Action may be taken by written consent if "signed by at least a majority of shares entitled to vote".

During period covered by this examination, the shareholder held a joint special meeting with the Board of Directors to acknowledge the resignation of Jason A. Hulsey as director and treasurer of the Company.

Board of Directors:

The Company's Bylaws state that "The business and affairs of the Corporation shall be managed under the direction of the Board of Directors." The number of directors shall be at "least three" and "not more than seven." They "shall be elected by a plurality of the votes cast by the shares entitled to vote in the election", and each director shall "hold office until the next annual meeting or until their earlier resignation, removal from office or death." Vacancies on the board "may be filled by the shareholders or by the affirmative vote of a majority of the remaining directors though less than a quorum." A quorum is defined by the Bylaws as "a majority of the number of directors."

The following persons had been duly elected by the shareholders and were serving as members of the board at September 30, 2003:

Name	Business Address	Principal Occupation/Affiliation
Marie M. Forbes	8825 Perimeter Park Blvd., Suite 102 Jacksonville, Florida 32216	Sole shareholder, Chairman of the Board and President of both the Company and U.S. Legal Services, Inc., a Florida insurer.
Arlene E. Disparti	8825 Perimeter Park Blvd., Suite 102 Jacksonville, Florida 32216	Treasurer of the Company and Director of Operations of both the Company and U.S. Legal Services, Inc., a Florida insurer.

The Bylaws provide regular and special meetings of the Board of Directors and for action by written consent. There is no provision for annual meetings.

As noted above, the Board of Directors held a joint special meeting with the shareholder on September 15, 2003 to acknowledge the resignation of Jason A. Hulsey as director and treasurer of the Company. As the Bylaws provide that the Company have at least three directors, **it is recommended that the Company elect at least one more director to the Board in accordance with the provisions of its Bylaws, or amend the Bylaws to reflect actual practice.**

Officers:

The Bylaws provide that the Company "shall have the officers and assistant officers that the Board of Directors appoint from time to time" though an "officer may resign at any time upon written notice" to the Company. Any person may hold two or more offices and vacancies "may be filled for the unexpired portion of the term by the Board of Directors at any regular or special meeting."

At September 30, 2003, the following persons had been duly elected by the Board of Directors at its November 5, 2002 meeting and were serving in the positions indicated:

President:	Marie M. Forbes
Secretary:	Arlene E. Disparti

At this same meeting, Jason A. Hulsey was elected as treasurer of the Company but his resignation was acknowledged by the Board at its September 15, 2003 meeting. There is no written resignation attached to the minutes.

Committees:

The Company's Bylaws state that the board of directors "may designate from among its members one or more committees – each of which must have at least two members." The minutes of the board do not reflect the existence of any committees during the period under examination.

Investments and Custodial Agreement:

As noted in the Department's Organization Examination report dated January 29, 2003, the Company is not required to be party to a Custodial Agreement at this time. The Company's only security is a U.S. Treasury Note held in safekeeping for the Tennessee Commissioner of Commerce and Insurance, in trust for the protection of all policyholders and creditors of the Company, pursuant to a Depository Agreement executed between the Company, the Tennessee Commissioner of Commerce and Insurance and The Jacksonville Bank, Jacksonville, Florida, as required by the Tennessee Commissioner. The Tennessee Department's securities custodian has this agreement on file.

Company management is advised that should an investment program be implemented, the Company will need to execute an agreement with a custodial institution that includes the safeguards recommended by the NAIC and the provisions of Tennessee Regulation 0780-1-46-.04 which requires that the "standard of responsibility on the part of the custodian which shall not be less than the responsibility of a bailee for hire or a fiduciary under statutory . . . law of Tennessee; that securities held by the custodian are subject to instructions of the insurance company; and that securities may be withdrawn immediately upon demand of the insurance company." It is recommended that this custodial agreement be submitted to the Department for approval prior to execution.

Management and Service Agreements:

All day-to-day business functions of the Company are performed by officers and employees of U.S. Legal Services, Inc., the Company's Florida affiliate which is also wholly owned by Marie M. Forbes. These services are provided *pro bono* pursuant to an informal arrangement under which no fees are charged to the Company.

As part of this arrangement, U.S. Legal processes ACH (bank account deduction) and credit card payments from the Company's Members for monthly remittance to the Company. This practice results in the funds of the Company being occasionally mingled with those of U.S. Legal.

It is highly recommended that the Company formalize its arrangement with U.S. Legal Services, Inc. with an administrative or management services agreement to define the duties and protect the interests of itself and U.S. Legal, and that this agreement be filed with the Department for prior approval in accordance with Tenn. Code Ann. § 56-43-107.

The Company has retained Farmand, Farmand & Farmand, P.A., Certified Public Accountants with offices in Jacksonville and Fernandina Beach, Florida, as their independent accountants. The CPA firm prepares the Company's statutory financial statements and regulatory filings. At the date of this examination, the firm had not yet performed a statutory audit of the Company.

Michael W. Whatley, ACAS, MAAA, Jacksonville, Florida, has been retained as the Company's consulting actuary. Mr. Whatley's primary function is been to assist the Company with its rate and policy form filings with the Department. He has not yet performed an actuarial review of the Company.

Dan H. Elrod, Esquire, Miller & Martin LLP, Nashville, Tennessee is the Company's attorney-at-law and in fact.

Conflict of Interests:

As noted above, the Company's officers and directors are also officers and employees of U.S. Legal, a Florida insurer. To satisfy NAIC examination procedures, **it is recommended that the Company implement a program to disclose the potential conflicts of interests of its officers and directors.**

Shareholder Distributions:

The Bylaws provide that the "Board of Directors may, from time to time, declare distributions to its shareholders in cash, property, or its own shares" providing certain financial criteria are met. At September 30, 2003, shareholder distributions totaled \$8,711.26 though the meeting minutes of the Board do not reflect the declaration of any distributions. **It is recommended that the Board of Directors duly declare distributions to the Company's sole shareholder and record said declarations in the corporate meeting minutes.**

PECUNIARY INTEREST AND COMMISSION EQUITY

The Company is exempted from the provisions of Tenn. Code Ann. § 56-3-103, which govern pecuniary interests, by Tenn. Code Ann. § 56-43-111(e)(2) which states that "Except as otherwise provided in this chapter, the provisions of the general insurance law do not apply to insurers authorized under this chapter."

The Company has no reinsurance and therefore no commission equity for which to account.

CORPORATE RECORDS

The Company's Certificate of Authority was issued March 2, 2003 and is effective until suspended or revoked.

The Company's original charter was filed with the Tennessee Secretary of State on November 5, 2002. It listed the Company's initial registered Tennessee agent and office as Corporate Creations Network, 205 Powell Place, Brentwood, Tennessee, and the Company's principal office as 8825 Perimeter Park Boulevard, Suite 102, Jacksonville, Florida. The Charter authorized the Company to issue up to 1,000 shares of stock.

On December 3, 2002 the Company filed an amendment to the charter to specify the par value of its stock as \$100 per share.

The Bylaws of the Company as adopted by the Board of Directors on February 6, 2003 and provided to the Department for its Organization Examination were relied upon for this examination. There have been no subsequent amendments.

The meeting minutes of the Company's sole shareholder and Board of Directors were provided to the examiners. The minutes appear to be kept in sufficient detail to properly reflect the corporate acts of the Company. Relevant attachments are maintained with the minutes.

The Company's corporate records are maintained at its principal offices in Jacksonville, Florida.

STATUTORY DEPOSIT

In compliance with Tenn. Reg. 0780-1-60-.05(1)(d), the Company was maintaining the following security on deposit for the benefit of Tennessee policyholders at September 30, 2003:

<u>Description of Security</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Market Value</u>
U.S. Treasury Note, purchased 1/30/03, CUSIP #912828AS9, 1.625%, due 1/31/05.	\$105,000	\$104,917	\$105,656

The above deposit was verified with the Department's securities custodian and the Company's custodial bank.

It is noted that the Company's premium writings in Tennessee, \$112,176 as reported in the September 30, 2003 Schedule T, exceed the value of the security deposit.

FIDELITY BOND AND OTHER INSURANCE

The Company is not afforded coverage by a fidelity bond. The minimum bond amount recommended by the NAIC is in the range of \$15,000 to \$25,000. **It is recommended that the Company obtain a fidelity bond for an amount that is at least the minimum recommended by the NAIC.**

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact business in the State of Tennessee only and its products are marketed through three independent agents – one resident and two non-resident. All three had current Tennessee producer licenses at September 30, 2003 in accordance with Tenn. Reg. 0780-1-60-.07.

The Company currently markets only one product – the CDL Protection Plan which is designed to assist commercial truck drivers in Tennessee maintaining their commercial drivers license (CDL). The Plan provides an attorney to represent the insured Member for moving, non-moving and Department of Transportation (DOT) violations which can affect their CDL. The attorney provided is located in the jurisdiction where the Member received the citation and “will represent the insured in court and through trial, if necessary, in municipal and state courts in the continental United States and Canada.”

Moving violations include speeding, reckless driving, failure to yield, etc., and non-moving and DOT violations include such infractions as overweight, expired inspection sticker and load spillage. In addition to coverage for driving violations, the CDL Protection Plan provides an attorney to represent the Member against charges of manslaughter, involuntary manslaughter, negligent homicide and vehicular homicide. Also provided is a limited amount of attorney consultation regarding such legal matters as divorce, child support and custody, wills and bankruptcy (Chapter 7). Specifically excluded are violations or citations received by Members prior to the effective date of the policy and federal violations other than bankruptcy. Attorneys can “refuse to provide services . . . in any matter they believe to be clearly frivolous, without merit, or which would violate the Code of Professional Responsibility or when in the sole opinion of the Plan Attorney and Plan Administrator [the Company], there is no meritorious defense.”

The Company has recently had several other legal insurance plans approved by the Department and intends to begin writing them as soon as a sufficient number of attorneys in Tennessee have been contracted.

- “Traffic-Max” – traffic violation legal defense insurance to be marketed to families and individuals. Legal representation is provided for non-criminal moving traffic violations and such legal matters as divorce, child support or custody, DUI and bankruptcy (Chapter 7) subject to a claims liability limit of \$1,000 per year. Also provided, depending on the coverage chosen, are additional attorneys’ services at reduced hourly rates. The Company intends to market these plans to employer groups as an employee benefit for which the premium can be paid through payroll deduction. Premiums vary depending on the coverage plan chosen.
- “The Family Protector” – a comprehensive family plan of legal services designed for individuals and members of their families. Legal representation is provided for such legal matters as divorce, adoptions, real estate transactions, traffic violations and the defense of juveniles. Coverage does not include costs incidental to legal matters including court filing fees, deposition and recovery costs, fines, penalties, investigative fees, postage and cost of copying, etc. The Company intends to market this plan to employer groups as an employee benefit for which the premium can be paid through payroll deduction. Premiums vary depending on the size of the employer group.
- “The Business Protector” – a comprehensive plan of legal services designed for small business owners. Legal representation is provided for such legal matters as corporate filings, workers’ compensations, civil rights (Title VII), traffic violations, and debt collection. Coverage does not include costs incidental to legal matters including court filing fees, deposition and recovery costs, fines, penalties, investigative fees, postage and cost of copying, etc. Premiums vary depending on the number of people employed by the covered business.
- “The Physician’s Shield” – medical justice insurance to be marketed to medical providers subject to malpractice lawsuits. Legal services are provided by a designated attorney for countersuit prosecution against non-meritorious/frivolous medical malpractice claims, medical malpractice expert witness testimony, investigation into improper or unethical medical malpractice plaintiff’s attorney conduct, and other related legal matters. Coverage is limited to an aggregate of \$100,000 for the annual term of the policy. Premiums vary according to the physicians area of practice or specialty, and discounts are available for multi-year coverage. Coverage is also available on a retroactive basis for up to two years.

Policies are billed on a monthly basis except for The Physician’s Shield which is an annual policy. The policies are automatically renewed at the end of each membership year, unless the Member cancels prior to the renewal date or fails to make payment on a timely basis.

LEGAL SERVICES AGREEMENTS

The Company filed a “Participating Attorney Legal Services Agreement With U.S. Legal Services of Tennessee, Incorporated” (PA Agreement) on March 4, 2003. Attached to this filing is a letter to the Compliance Analyst at the Department from the Company stating:

"This will confirm our telephone conversation of 2/18/03 regarding your February 12th letter to Mr. Dan Elrod [the Company's attorney], wherein you and I agreed that as far as the above referenced policy [USLCDL-TN, the CDL Protection Plan] there is no need for an attorney agreement for the following reasons:

"The above referenced Plan will provide a commercial truck driver the services of an attorney in whatever part of the United States they happen to be when they receive a moving violation or DOT violation. This could happen in any of the thousands of cities or counties throughout the United States.

"Our method of providing an attorney since we, for the most part, will not know of any in almost all of those locations, is to locate them on the internet, call them and arrange for representation and payment. This is all done without a formal or written Participating Attorney Agreement."

Therefore, since the Company has not issued any policies other than its CDL Protection Plan, it has not executed any PA Agreements. It plans to implement use of these agreements to contract attorneys for its Traffic-Max, Family Protector and Business Protector policies. No PA Agreement has been filed with the Department that indicates use for attorneys providing services under the Company's Physician's Shield policy.

Though the Company has been exempted by the Department from executing PA Agreements for its CDL Protection Plan policies, it has been utilizing the agreement form of its affiliate, U.S. Legal Services, Inc., to formalize the rate to which a particular attorney has agreed to represent the Company's Member on a case by case basis. The average rate to which attorneys agree to represent the Company's CDL Protection Plan Members is a flat rate of \$150.

The filed PA Agreement that the Company intends to put into use in the near future provides for capitation payments to be made to the contracted attorneys or law firms and states that the Company "will pay by draft payable to PA in arrears, a fee of thirty three and one third [sic] percent (33 1/3) of the total premium collected, less any appropriate premium tax, from assigned accounts for each primary, enrolled Plan Member" and that "PA will bill each Plan Member directly for supplemental Services and all out-of-pocket costs and expenses . . . rendered to or on behalf of such Plan Member."

In return, the PA agrees to provide legal services as set forth in the particular policy and that their "offices will be open and telephones answered during normal business hours", they "will respond to all Plan Member inquiries within one business day after receipt of inquiry or call", and that they "will schedule appointments with Plan Members not later than 7 business days after a Plan Member requests an appointment."

The PA Agreement includes clauses regarding the attorney-client relationship, minimum legal malpractice insurance coverage to be maintained by the PA, termination of the Agreement as subject to 60 days' written notice, among others, and includes an indemnification clause under which the PA will defend, indemnify and hold the Company harmless for the PA's failure to perform or negligent performance of legal services for Members under the Agreement.

GROWTH OF THE COMPANY

The growth of the Company, as excerpted from quarterly statements and the financial statement of this report, is presented as follows:

Period	Premiums Earned	Admitted Assets	Liabilities	Unassigned Funds (Surplus)
4/1/03 – 6/30/03	23,538	220,180	2,671	17,509
7/1/03 – 9/30/03	112,176	262,591	5,840	(43,265)

LOSS EXPERIENCE

The ratios of attorneys' fees incurred to premiums earned, as reported in the respective quarterly statements and the financial statement of this report, are as follows:

Period	Attorneys' Fees Incurred	Premiums Earned	Loss Ratio
4/1/03 – 6/30/03	250	23,538	1.062%
7/1/03 – 9/30/03	9,100	112,176	8.112%

REINSURANCE

The Company does not cede or assume reinsurance.

MARKET CONDUCT ACTIVITIES

Policy Forms and Underwriting Practices:

The Company filed plan number USLCDL-TN, the CDL Protection Plan, with the Department on February 19, 2003. The filing states that the rate for the plan is \$32.95 per month. Policies are effective from first premium payment and shall continue in full force and effect as long as the Member pays the monthly premium.

A sample of CDL Protection Plan policies was reviewed to confirm the Company's use of approved contract forms and premium rates. No exceptions were noted and the Company appears to be in compliance with Tenn. Code Ann. § 56-43-106.

It was noted that the Company's enrollment (application) form, as approved by the Department, lists the Company name as "U.S. Legal Services, Inc." with a Tennessee address. It also includes an agency name which states that it is "A Division of U.S. Legal C.D.L. Protection Plan, Inc."

The actual policy form does contain the correct name of the Company.

The policy forms and rates listed below were filed with the Department on October 16, 2003, but are not yet in use. The policies state that the Company can change premium rates with 30 days' notice to the Member.

<u>Name of Plan</u>	<u>Company Form Number</u>	<u>Monthly Premium (except where noted)</u>
Traffic-Max	USL TN 210 (individual)	\$125.00
Traffic-Max	USL TN 210 A - E (individual)	\$20.00 - \$100.00
Traffic-Max	USL TN 210 FAM (family)	\$200.00
The Family Protector	US109A TN	\$18.75 - \$25.00
The Business Protector	BP101 TN	\$48.75 - \$118.75
The Physician's Shield	MJ101 TN	\$750 - \$1,500 per year

As with the CDL plan enrollment form, the form approved by the Department for the above plans, other than The Physician's Shield, lists the Company's name as "U.S. Legal Services, Inc." with a Tennessee address. The Physician's Shield enrollment form lists the name of the Company as "Southern Legal Services Corp" with the same Tennessee address. **It is recommended that the Company file enrollment forms with the Department that include the Company's correct and proper name.**

There is essentially no underwriting of potential policyholders. A policy is issued to each applicant upon payment of the first month's premium.

Advertising:

The Company has not yet utilized any advertising materials, but is in the process of printing pamphlets and brochures describing its products to distribute to businesses and employer groups. These materials will be nearly identical to those used by the Company's affiliate, U.S. Legal. Sales agents will present the Company's products as a coverage, service or additional employee benefit. The examiners reviewed these brochures and pamphlets and did not note any misleading or objectionable language.

Treatment of Policyholders:

Management states that the Company has not yet received any formal complaints. Almost all communications with Members involve retaining attorneys for Members in locations that they have received citations. The Company's involvement in the claim is then ongoing until the citation has been paid or the matter has been resolved in some other manner. The Company does have a "Member Complaint/Request/Or Cancellation" form for completion by customer service personnel when applicable. This form appears to capture most of the necessary information regarding a complaint, but does not include a place to note the date the complaint was resolved, or disposition date.

While the Company plans to keep these forms in the Member files, the attorney files, and enter

notes in the respective electronic files, it does not intend to maintain a formal complaint log. Therefore, **it is recommended that a separate file with copies of the completed complaints forms be maintained so that the Company can track trends in complaints received and Department examiners have convenient access to review complaints and the associated documentation.**

EMPLOYEE WELFARE

The Company has no employees. All functions are performed *pro bono* by the officers and employees of U.S. Legal Services, Inc., a Florida insurer.

LITIGATION AND CONTINGENT LIABILITIES

As of September 30, 2003, the Company indicated it had no pending litigation, other than that arising out of the normal course of business, which would adversely affect the financial condition of the Company.

ACCOUNTS AND RECORDS

The Company runs an Accounts Receivable/Sales/Commissions software system that has been customized for its operations on an Intel Dual Pentium III 1 GHZ Processor File Server. Other software programs, such as Microsoft Word and Excel, are provided to individual workstations through a local area network (LAN) run on a Windows 2000 server. Accounting systems for accounts payable, general ledger and payroll are managed through a commercial software package from SBT Systems. Journal entries generated by the custom software are electronically interfaced with the SBT Systems software.

Company management states that a disaster recovery plan is "in effect but not tested." Management also notes that system programs can easily be loaded onto a remote computer if necessary. Back-up tapes are cycled off-site on a daily basis. All critical accounting files are copied to an administrative workstation as well as to tape.

The Company utilizes the services of outside consultants to maintain and develop its systems software and U.S. Legal's internet website. The U.S. Legal website, which can be viewed at www.uslegalservices.net, has links to information for members, attorneys and agents. While the website is not specific to Tennessee or any other state, it does appear to provide fairly comprehensive information about the Company's products.

Several errors and omissions were noted in the Company's June 30, 2003 Quarterly Statement and the first draft of the September 30, 2003 Quarterly Statement. The examiner has attempted to assist the Company in completing the September 30 statement accurately, but it is ultimately the responsibility of the Company to file accurate financial statements with the Department in the format stipulated. Comprehensive information regarding statutory financial reporting can be

found in the following and other NAIC publications which are available at www.naic.org:

Annual Statement Instructions for Property/Casualty Companies
Accounting Practices and Procedures (APP) Manual
Purposes and Procedures Manual of the NAIC Securities Valuation Office (SVO)

The Company is filing its financial statements on NAIC blanks designed for property and casualty insurers as provided by the Department. These reporting forms are not a particularly good "fit" for the Company's type of business and may not be providing the Department with the information necessary to effectively regulate the Company. The Company has suggested that the Department might adapt a blank designed by the State of Florida specifically for legal insurance entities in order to disclose information in a more meaningful format.

FINANCIAL STATEMENT

There follows a statement of assets and liabilities, and statement of income, at September 30, 2003, together with a reconciliation of capital and surplus for the period under review, and the related commentary for changes made to the financial statement of this report for the purposes of this examination:

ASSETS

	Admitted Amount per Company	Examination Changes	Notes*	Admitted Amount per Examination
Bonds	\$ 104,918	\$0		\$ 104,918
Cash and Short-Term Investments	149,537	0	a	149,537
Subtotal, Cash and Invested Assets	<u>254,455</u>	<u>0</u>		<u>254,455</u>
Investment Income Due and Accrued	\$ 1,714	\$0		\$ 1,714
Receivable from Parent, Subsidiaries and Affiliates	6,422	0		6,422
Subtotal	<u>8,136</u>	<u>0</u>		<u>8,136</u>
 TOTAL ASSETS	 <u>\$ 262,591</u>	 <u>\$0</u>		 <u>\$ 262,591</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$0	\$3,625	b	\$ 3,625
Taxes, Licenses and Fees	2,215	0		2,215
Borrowed Money	0	95,016	c	95,016
Total Liabilities	<u>2,215</u>	<u>98,641</u>	d	<u>100,856</u>
Common Capital Stock	100,000	0		100,000
Gross Paid In and Contributed Surplus	105,000	0		105,000
Unassigned Funds (Surplus)	55,376	(98,641)	e	(43,265)
Surplus as Regards Policyholders	<u>260,376</u>	<u>(98,641)</u>		<u>161,735</u>
 Total Liabilities and Surplus Funds	 <u>\$ 262,591</u>	 <u>\$0</u>		 <u>\$ 262,591</u>

* Notes can be found under caption "Analysis of Changes in Financial Statement and Comments Resulting from Examination."

STATEMENT OF INCOME

Premiums Earned	\$112,176
Losses Incurred	5,475
Loss Expenses Incurred	0
Other Underwriting Expenses Incurred	45,284
Total Underwriting Deductions	<u>50,759</u>
Net Underwriting Gain or (Loss)	61,417
Net Investment Income Earned	<u>2,670</u>
Net Investment Gain or (Loss)	2,670
Net Income Before Dividends and Federal and Foreign Income Taxes	64,087
Dividends to Policyholders	<u>0</u>
Net Income After Dividends but Before Federal and Foreign Income Taxes	64,087
Federal and Foreign Income Taxes Incurred	<u>0</u>
Net Income	<u><u>\$ 64,087</u></u>
Surplus as Regards Policyholders at Incorporation	\$ -
Net Income	64,087
Dividends to Stockholders	(8,711)
Examination Changes:	
Losses	(3,625)
Borrowed Money	(95,016)
Total	<u>(98,641)</u>
Change in Surplus as Regards Policyholders for the Year	<u>(43,265)</u>
Surplus as Regards Policyholders, September 30, 2003	<u><u>\$ (43,265)</u></u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

a. Cash and Short-Term Investments:

The Company maintains an operating account at The Jacksonville Bank titled "Business Money Market" which was reported as a cash demand deposit account in Schedule E of the Company's September 30, 2003 Quarterly Statement. SSAP No. 2 stipulates that money market instruments be reported as short-term investments in Schedule DA. However, The Jacksonville Bank provided the examiner with a memo stating that the "funds invested in our money market accounts are held at the Bank as traditional Bank deposits" and "are not invested in other securities." Therefore, it appears that the Company's account is not a true money market instrument and no exception is taken to the asset being reported as cash in the Company's financial statements.

b. Losses:

Tenn. Reg. 0780-1-60-.06(1)(e) requires the Company to "maintain at all times proper reserves for . . . unpaid attorney service fees, including provision for unreported and undischarged legal cases and other known liabilities." SSAP No. 5 states that "Liabilities shall be recorded on a reporting entity's financial statements when incurred."

The Company had established no liability for unpaid claims at September 30, 2003. However, a review of claim files revealed that the Company had incurred attorneys' fees that had not been paid totaling \$3,625 at that date, and therefore, a liability for that amount has been included in the financial statement of this report. **It is recommended that the Company establish reserves for incurred attorneys' fees in accordance with Tenn. Reg. 0780-1-60-.06(1)(e).**

Subsequent Event: Company management has stated that a process will be developed and implemented to establish a reserve for attorneys' fees when liability has been incurred and quantified.

c. Borrowed Money:

The Company's bank, The Jacksonville Bank, provided the examiner a confirmation as of September 30, 2003 that revealed an outstanding loan in the amount of \$95,016. The loan originated on April 3, 2003 and was collateralized by the Company's \$100,000 Certificate of Deposit. This loan was not disclosed in either the June 30 or September 30, 2003 Quarterly Statements and it appears that the Company is in violation of Tenn. Code Ann. § 56-43-108 which requires the Company to provide accurate financial statements to the Department. The failure to report a liability for this loan at September 30, 2003 also appears to violate Tenn. Reg. 0780-1-60-.06(1)(e) which requires the Company to establish liabilities for reserves and "other known liabilities." **It is recommended that the Company establish and fully disclose all**

liabilities on financial statements submitted to the Department in accordance with Tenn. Code Ann. § 56-43-108 and Tenn. Reg. 0780-1-60-.06(1)(e).

Subsequent Event: The aforementioned loan was repaid to the bank in full on November 5, 2003.

d. Other Liabilities:

At September 30, 2003 the Company's Member groups consisted essentially of one large trucking company. This company pays in arrears on a weekly basis, and therefore, unearned premium reserves are not established.

The Company plans to extend its business in the near future to individuals, families and small businesses for which premiums will be prepaid monthly and attorneys will be contracted on a capitation basis. Tenn. Code Ann. § 56-43-109 requires the Company to "maintain the reserves necessary for the sound operation of the business, including unearned premium reserves" and Tenn. Reg. 0780-1-60-.06(1)(e) states that the Company "must maintain at all times proper reserves for unearned subscription fees and unearned premiums". The Company has indicated its intention to comply with this statute and regulation when applicable.

e. Unassigned Funds (Surplus):

The Company's unassigned funds (surplus) at September 30, 2003, resulting from this examination are as follows:

Unassigned Funds (Surplus) reported by		
Company at September 30, 2003:		\$55,376
Examination Changes:		
Losses (see Note B, above)	\$ 3,625	
Borrowed Money (see Note D, above)	<u>95,016</u>	
Total		<u>98,641</u>
Unassigned Funds (Surplus) resulting from		
Examination at September 30, 2003:		<u>(\$43,265)</u>

**SUMMARY SCHEDULE FOR "ANALYSIS OF CHANGES IN
FINANCIAL STATEMENT AND COMMENTS RESULTING FROM
EXAMINATION" AS THEY AFFECT UNASSIGNED FUNDS (SURPLUS)**

The following depicts the change in unassigned funds (surplus) as outlined in the previous section of this report:

<u>Item</u>	<u>Unassigned Funds (Surplus)</u>	
	<u>Increase</u>	<u>Decrease</u>
Losses	\$0	\$ 3,625
Borrowed Money	<u>0</u>	<u>95,016</u>
Net Change in Unassigned Funds (Surplus)		<u>\$98,641</u>

SUMMARY OF EXAMINER'S COMMENTS AND RECOMMENDATIONS

<u>Page</u>	<u>Recommendation</u>
6	All day to day business functions of the Company are performed by the officers and employees of U.S. Legal Services, Inc., a Florida affiliated insurer, on an informal <i>pro bono</i> basis. As part of this arrangement, U.S. Legal processes ACH (bank account deduction) and credit card payments from the Company's Members which results in the funds of Company being occasionally mingled with those of U.S. Legal. It is highly recommended that the Company formalize its arrangement with U.S. Legal Services, Inc. with an administrative or management services agreement to define the duties and protect the interests of itself and U.S. Legal, and that this agreement be filed with the Department for prior approval in accordance with Tenn. Code Ann. § 56-43-107.
17	The examiner established a reserve for attorneys' fees incurred of \$3,625 at September 30, 2003. It is recommended that the Company maintain a liability for unpaid attorneys' fees in accordance with Tenn. Reg. 0780-1-60-.06(1)(e). Company management has stated that a process will be developed and implemented to establish a reserve for attorneys' fees when liability has been incurred and quantified.
17	The Company did not disclose an outstanding loan with The Jacksonville Bank at June 30 or at September 30, 2003. It is recommended that the Company establish and fully disclose all liabilities on financial statements submitted to the Department in accordance with Tenn. Code Ann. § 56-43-108 and Tenn. Reg. 0780-1-60-.06(1)(e). It is noted that this loan was repaid in full on November 5, 2003.
<u>Page</u>	<u>Comment</u>
4	The Company's sole shareholder and Board of Directors acknowledged the resignation of Jason A. Hulsey, director and treasurer, on September 15, 2003. As this resulted in the Board having only two members, and as the Bylaws provide that the Company have at least three directors, it is recommended that the Company elect at least one more director to the Board in accordance with the provisions of its Bylaws, or amend the Bylaws to reflect actual practice.
6	It is recommended that the Company implement procedures to disclose the potential conflicts of interests of its officers and directors.

<u>Page</u>	<u>Comment</u>
6	It is recommended that the Board of Directors duly declare distributions to the Company's sole shareholder and record said declarations in the corporate meeting minutes.
8	It is recommended that the Company obtain a fidelity bond for an amount that is at least the minimum of the range (\$15,000 - \$25,000) recommended by the NAIC.
12	It is recommended that the Company file enrollment forms with the Department that include the Company's correct and proper name.
13	It is recommended that the Company maintain a separate file of its completed complaint forms so that it can track trends in complaints received and Department examiners have convenient access to review complaints and the associated documentation.

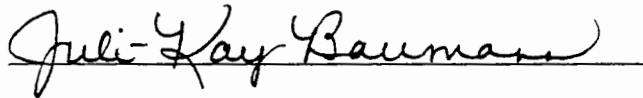
CONCLUSION

Insurance examination practices and procedures, as promulgated by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities of U.S. Legal Services of Tennessee, Inc., Newbern, Tennessee.

In such manner, it was determined that, as of September 30, 2003, the Company had admitted assets of \$262,591 and liabilities, exclusive of capital, of \$100,856. Thus, there existed for the additional protection of the policyholders, the amount of \$205,000 in the form of paid-up capital, gross paid-in and contributed surplus, and (\$43,265) in unassigned funds (surplus).

The timely cooperation of the officers of the Company extended during the course of this examination is hereby gratefully acknowledged.

Respectfully submitted,

A handwritten signature in cursive script, reading "Juli-Kay Baumann", is written over a horizontal line.

Juli-Kay Baumann, ARM, ARe, AIE, CFE, CPCU
Examiner-in-Charge
Representing the State of Tennessee
Department of Commerce and Insurance
Southeastern Zone, NAIC

EXAMINER AFFIDAVIT

The undersigned deposes and says that she has duly executed the attached examination report of U.S. Legal Services of Tennessee, Inc., dated January 16, 2004 and made as of September 30, 2003, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says she is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of her knowledge, information and belief.

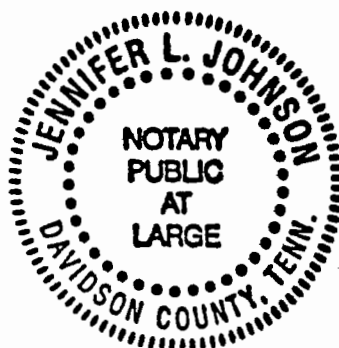
Juli-Kay Baumann

Juli-Kay Baumann, ARM, ARe, AIE, CFE, CPCU
Examiner-in-Charge
Representing the State of Tennessee
Department of Commerce and Insurance
Southeastern Zone, NAIC

County Davidson
State Tennessee

Subscribed and sworn to before me
This 16th day of January, 2004.

Jennifer L. Johnson
(Notary)



My Commission Expires NOV. 24, 2007

APPENDIX A

